

KILOWAT



ENERGY UPDATE

Q4 2019 and Jan/Feb 2020

THE MOST UP TO DATE ENERGY INFORMATION TO HELP WITH YOUR BUSINESS DECISIONS

8760 is here to help customers manage their energy expenses – please contact your 8760 account executive at [1-888-988-8760](tel:1-888-988-8760) if you would like to discuss your specific situation.

Published March 9, 2020

MARKET DETAILS¹

October Avg Pool Price
\$41.86/MWh
October Demand
9,438 MW (Avg)

November Avg Pool Price
\$56.15/MWh
November Demand
9,913 MW (Avg)

December Avg Pool Price
\$43.19/MWh
December Demand
10,346 MW (Avg)

Q4 Avg Pool Price
\$47.07/MWh

Full Year 2019 Avg Pool Price
\$55.28/MWh

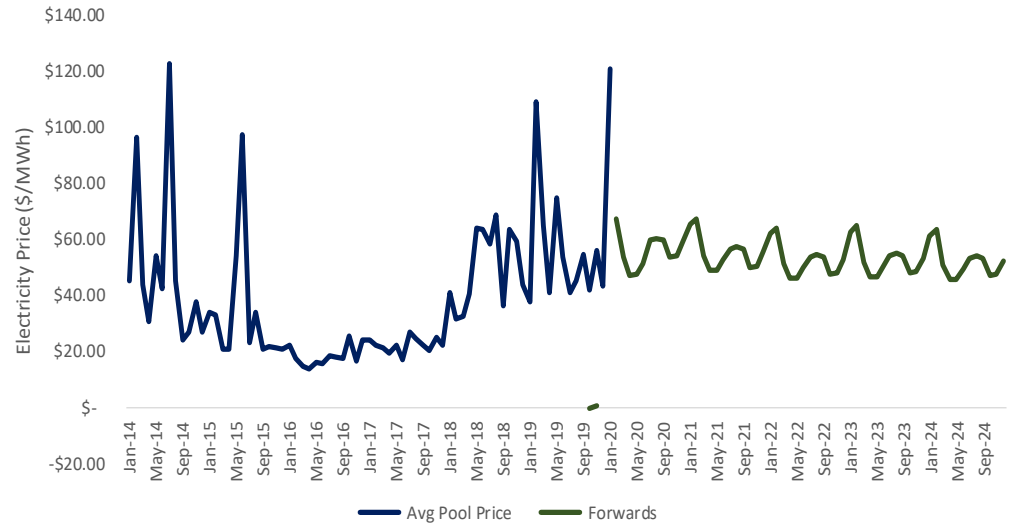
Note: \$10/MWh = \$0.01/kWh

FORWARD PRICES
(as of January 1, 2020)

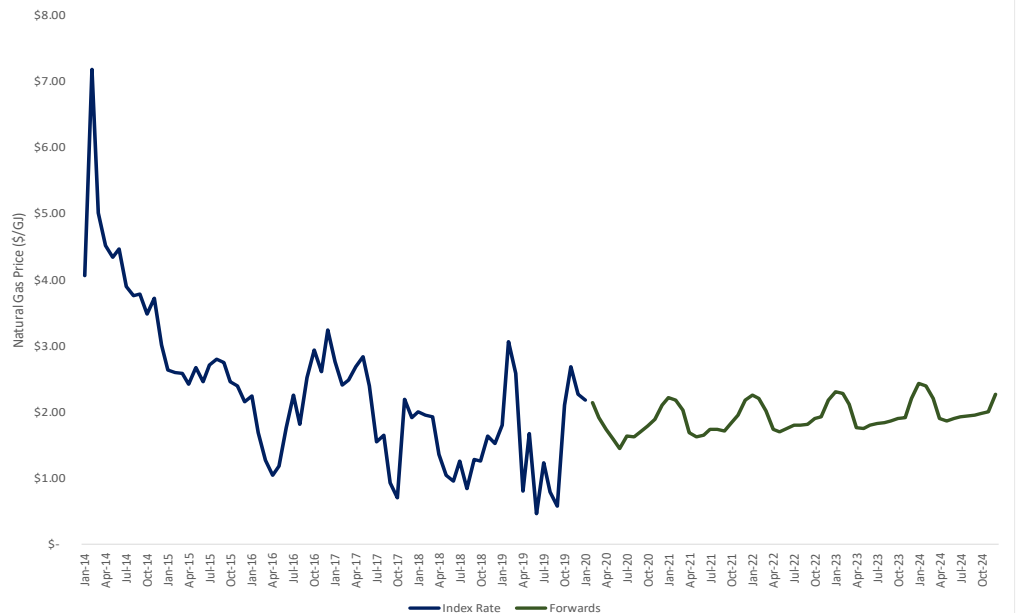
2020 - \$56.42/MWh
2021 - \$55.25/MWh
2022 - \$52.50/MWh
2023 - \$53.02/MWh
2024 - \$51.98/MWh

5 Year Avg:
\$53.83/MWh

Monthly Avg Actual Electricity Pool Price + Forwards Jan 2014 to Dec 2024



Monthly Avg Actual Natural Gas Price + Forwards Jan 2014 - Dec 2024



COMMENTARY

Business as Usual in Q4 2019

In 8760's 2019 Q3 Market Update, we noted the start of the year saw significant price volatility in the Alberta electricity market, but the volatility was less extreme in the third quarter. This lower volatility continued through the fourth quarter of 2019.

Pool prices for the month of October settled at an average of \$41.86/MWh which was a 52% decrease from the average pool price of \$63.48/MWh in October 2018. The October 2019 price was also 30% lower than the September 2019 average price of \$54.45/MWh.

The average pool price for November settled at \$56.15/MWh, a more typical level for the month. November 2019 prices were 34% higher than October 2018, but only 5% lower than those in November 2018.

Average demands for both October and November were lower than the same periods last year. Unseasonably cool weather and resulting lower demands was much of the story for the Q2 and Q3 reports, in Q4 generally the unseasonably warmer fall/early winter months similarly led to lower demands and in turn reduced pressure on pool prices.

Pool prices for December averaged \$43.19/MWh. While a reduction from November 2019 price levels, December 2019 pool prices were comparable to December 2018 pool prices. Average demand in December 2019 was slightly higher than November 2019, but comparable to average demand experienced in December 2018.

On a quarterly basis, the average quarterly pool price for Q4 of \$47.07/MWh is almost exactly the same level as the average pool price of \$46.87/MWh for Q3.

Overall, for 2019, the year started strong with an average pool of \$109.36/MWh in February due to the extreme cold snap for that month that carried over into early March. Other than a bit more volatility in May, the balance of the year was uneventful. The February price spike was gradually averaged down over the balance of the year, leading to a full year average pool price for 2019 of \$55.28/MWh.

2020 Off To a Record Start

January 2020

Just to make sure that people were not getting comfortable again with \$40-\$50 pool prices, the new decade started off with a (very cold) wake-up call in early January 2020.

Pool prices for January 2020 averaged \$120.67/MWh. The majority of this was driven by extremely high prices for the January 12-17 period, caused by extreme cold weather and resulting impact on electricity demands, generating unit outages, little to no wind generation, and some opportunistic pricing by electricity generators. Prices were at/near the market cap of \$1000/MWh for four straight days.

An all-time record peak electricity demand of 11,698 MW was set on January 14. Average demand for January was 10,517 MW, which is only modestly higher than last January, generally reflecting an average month other than that one week.

February 2020

Going the other direction, pool prices for February 2020 averaged only \$36.33/MWh, the lowest month recorded since September 2018.

2020 YTD

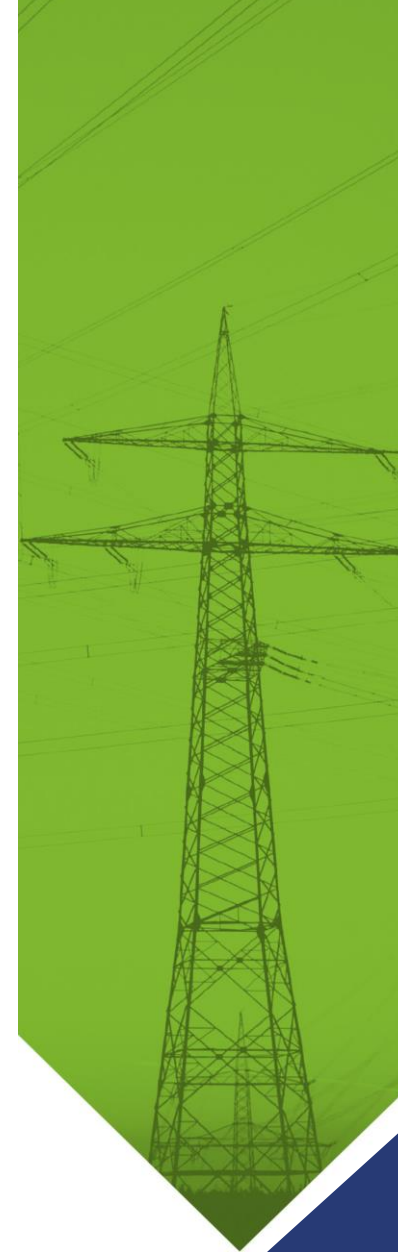
The first two months of the year have illustrated that volatility, in both directions, continues to exist in the Alberta electricity market.

With two months of volatility in the last twelve months – February 2019 and more recently January 2020 – floating electricity prices is becoming a much riskier proposition for the majority of our customers.

Alberta Electricity Market Updates

8760 predicted in our last report that things would be generally quiet on the electricity market policy and political front. This has been the case so far in 2020.

The UCP government cancelled the planned capacity market on July 24, 2019, and thus retaining the status quo energy-only market. At that time, it tasked the Alberta Electricity System Operator (AESO) to report back to it if there were any changes required to the market to ensure that investors remained incented to invest in required new generation supply going forward. One element of this was whether there needed to be any changes to the "price cap", or maximum pool price, of \$1,000/MWh (= \$1.00 per kWh).



In mid-February 2020, the AESO released its preliminary views on the price cap and reached its initial conclusion (subject to further consultation) that the price cap should remain at its current levels. It believes the current price, in the current market-design, allows generators a reasonable opportunity to earn adequate return to build new generation, including renewable sources.

The AESO's final report to the government on this issue is due in July 2020.

Removal of Regulated Rate Option (RRO) Price Cap

As reported in our last update, on November 30, 2019, the UCP removed the electricity price cap of 6.8 cents per kWh. This cap was previously applied to insulate those residential and small commercial customers that opted to be on the RRO, from increased and more volatile electricity prices.

Depending on the service area, to date in 2020 RRO customers are facing rates ranging from 7.4 cents per kWh to 8.7 cents per kWh.

Unfortunately, some of the less credible players in the industry are using the removal of the price cap to incite unnecessary fear/panic in customers and spread false information. The RRO rates and corresponding price cap only applied to those customers consuming less than 250,000 kWh.

While it is true those RRO customers will now face higher rates and increased volatility, the removal of the price cap has NO direct impacts to customers that consume above 250,000 kWh annually. This represents the majority of our customer base.

For those customers, all existing fixed price contracts remain in place, and cannot be cancelled without penalty, despite what some players in the industry are suggesting.

Natural Gas Prices – continued stability

Spot natural gas prices in Alberta averaged \$1.67/GJ for 2019, ranging from prices of \$3.07/GJ in February 2019 to months of less than a \$1/GJ during some spring and summer months. These simple average natural gas prices are somewhat misleading however, as a large majority of 8760's customers experience significantly higher consumption in the colder winter months when spot prices are generally higher.

8760 customers that utilize floating price arrangements experienced an effective average cost of gas over the last year in the \$1.90 to \$2.10 per GJ range.

Even with the extreme cold weather in January 2020 as noted above, natural gas prices averaged only \$2.18/GJ for the month.

Re-Introduction of the Carbon Tax in January 2020

While the natural gas commodity itself is stable, customers will again experience significant cost increases due to the re-introduction of the federal carbon tax on natural gas consumption.

The carbon tax rates are as follows (note the per GJ rates reflect slight increases, correcting the amounts contained in our previous report):

- \$1.05 per GJ for January 1, 2020 to March 31, 2020 (based on carbon cost of \$20/tonne)

- \$1.58 per GJ for April 1, 2020 to March 31, 2020 (based on carbon cost of \$30/tonne)
- \$2.10 per GJ for April 1, 2021 to March 31, 2022 (based on carbon cost of \$40/tonne)
- \$2.63 per GJ for April 1, 2022 and subsequent (based on carbon cost of \$50/tonne).

The court challenges by the provinces over the constitutionality of the federal carbon tax continues. The Alberta Court of Appeal recently found in Alberta's favour by a 4 to 1 vote, that the federal carbon was indeed an over-reach of federal jurisdiction over provincial authority.

However the federal government was not moved by the decision, and will await the Supreme Court of Canada's ruling on the matter which will commence being heard in March 2020.

We Are Here to Help

There are many options for businesses with respect to managing their electricity and natural gas expenses, even with this kind of uncertainty.

The decision to float the market on an index product, or to create cost certainty by entering into a fixed price contract, or a combination of both, is largely dependent upon appetite for risk, budgetary ability to absorb price shocks, business planning and ever-changing market conditions. We can help navigate these issues for you.

If you have questions about the electricity and/or natural gas markets or about appropriate risk strategies for your business, please contact your 8760 account executive.

WE MAKE THE COMPLEX SIMPLE

8760 IS HERE TO HELP YOUR BUSINESS MAKE MORE INFORMED ENERGY DECISIONS

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EXPENSE MANAGEMENT

¹ Pool prices and demand levels attained from AESO system reports. Forward prices provided by CHASE Enterprises Ltd.

